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Emergent Social Dilemmas in Modern Society: An Institutional Economics Perspective

Keywords:

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Emergent Social Dilemmas in Modern Society: An Institutional Economics Perspective

((1)) In a recent article, Valentinov and Chatalova (2016) offer an insightful and thought-provoking systems-theoretic explanation of the emergent nature of social dilemma situations in modern societies. In fact, this particularly commendable contribution promotes the interdisciplinary dialogue between systems theory and institutional economics, a venture typically prevented by the widespread yet mistaken view that the two theory perspectives are mutually exclusive, even incommensurable. We reconstruct their contribution as a three-tiered argument:

1. Diagnosis of modern societies: Systems are both closed and open. Valentinov and Chatalova's (2016) proposition that social dilemma situations are emergent in a modern society builds upon Luhmann's (1977) distinction between three successive forms of societal differentiation: segmentary, stratificatory and functional. The authors highlight that the functional differentiation of modern societies results in autopoietic systems (e.g. the economy, politics, science etc.), whose complexity and functionality depends on a "systemic insensitivity towards the environment" Valentinov and Chatalova (2016, 140). Building on Ludwig von Bertalanffy (1968, 141-143), the authors draw attention to a supplementing notion that social systems are metabolistically open because their sheer existence as "organized complexity" requires an open exchange relationship with their environment. Hence, the systems-theoretic diagnosis of modern society highlights a 'double identity' of social systems, which are seen to be both operationally closed and metabolistically open.

2. Signum of modern societies: Social dilemmas result from the systems' disregard of their environment. The double identity of social systems gives rise to the emergence of social dilemma situations in modern societies, which the authors explain with an intimate analogy between systemic imperatives and situational incentives: „In the same manner that systemic imperatives cause functional systems to disregard their environment, incentives lead individuals to disregard their own environment, which likely includes other incentive-driven individuals“ (Ibid, 141).

3. Managing social dilemmas: Weakening incentives. Social dilemma situations are ambiguous; they can be either desirable or undesirable. While "desirable dilemmas are created by ... incentive structures that do not lead actors to disregard their critical environmental dependence," dilemmas are undesirable "by virtue of actors' disregard of their critical dependence on the environment" (Ibid, 142). And because undesirable dilemma structures are seen to originate from incentives being too strong, Valentinov and Chatalova's (2016, 142) systems-theoretic management of dilemma situations intends to weaken incentives: "[S]ocial dilemma situations can be, in the last analysis, traced back to incentives being too strong relative to a particular environment. Accordingly, correcting social dilemmas calls for the weakening of incentives."

((2)) This comment is inspired by the great potential of interdisciplinary learning between systems theory and institutional economics, which is currently under way in several academic debates (cf., e.g., Beckmann 2010; Hielscher et al. 2012; Valentinov et al. 2013, 2015). This comment's goal is to contribute to these interdisciplinary debates by accentuating the specific proprium of each theory perspective in analyzing social phenomena, because we believe that clearly identifying each perspective's strength is the best way to foster interdisciplinary learning. Following this logic, we have presented the key argumentative steps of a systems-theoretic perspective on emergent social dilemmas in modern society in section ((1)). In the next two

sections, we will ((2)) explain how institutional economics reconstructs each step of the above-reconstructed argument before we ((3)) compare both perspectives.

Ad 1. Similar to Luhmann's (1977) differentiation of three stages in the historical development of societal structure, recent research in institutional economics offers a helpful conceptual framework to account for the specific feature of modern societies (cf. North et al. 2009). Beyond the social organization of tribal communities, North et al. (2009) distinguish between two types of social structures capable of integrating larger societies: a limited access order (LAO) and an open access order (OAO). We shortly sketch both social structures because they provide a particularly relevant background for explaining the emergent character of social dilemma situations in modern societies:

- A LAO describes the politico-economic system of a traditional society or a “natural state.” This form of social organization “reduces the problem of endemic violence” by manipulating “the economic system to produce rents that then secure the political order” (Ibid, 18). A dominant political coalition grants (and defends) both the political and economic privileges of its insiders, but refuses to concede the same privileges to outsiders. It literally limits access to the resources in politics and the economy for most other members of society in order to generate rents for the elite groups. Though limiting access requires force, it is also the reason why a functioning LAO is able to secure relative peace in society as long as it succeeds in restricting the violent struggle for power both in politics and the economy. Thus, a LAO can be seen as a system to avoid *competition* both in politics and in the economy, for competition is a potential source of violence and civil war.
- In contrast to traditional societies, modern societies typically feature the social structure of an OAO. OAOs sustain institutions that allow elites to transform their personal political and economic privileges into impersonal rights, and they facilitate the creation of “perpetually lived organizations.” This transformation starts a momentum of “rent-erosion through entry” in politics and the economy (Ibid, 26-27). If successful, a fully-fledged OAO sustains open access not only in politics and the economy, but potentially also in many other social systems. As a result, OAOs typically feature the characteristics of a political democracy and a market economy, which are supported by a strong civil society (Ibid, 113). Thus, an OAO can be seen as a system to enforce *competition* in politics and in the economy, for modern societies possess the institutional prerequisites to acquire the positive effects of competition without declining into chaos.

Against this backdrop, an institutional economics *diagnosis of modern society* stresses two fundamental features: First, North et al.'s perspective highlights the pivotal importance of two social systems, including their interdependence. Modern societies are open societies mainly because the political arena's openness helps establishing and maintaining open access in the economic arena, and vice versa. Evidently, most other social systems in modern societies feature open access, too. Yet, this is to be seen as a systematic consequence of the openness in politics and the economy, not simply as an accidental side effect. Second, the openness of systems is essentially attached to the condition of competition. Both in the economy and in politics, political and economic entrepreneurs compete for approval by their primary audience—the demand of consumers and the votes of constituents—to secure their long-term existence. However, openness is a two-way process. It requires an institutional order of competition to secure both entry and exit: If political or business organizations are unsuccessful in their efforts to attract the resources

of their audience, competition makes sure that they either learn better or cease to exist.

Ad 2. The “social dilemma lens” (Beckmann et al. 2014) of institutional economics is a theoretical heuristics for the analysis of societal conflicts, a situation in which actors cannot realize a potential of mutual benefits due to a situational conflict of interests (Pies et al. 2009, 382-383). Typically, this analysis is not used to explain the *relative occurrence* of social dilemma situations in different historical contexts. Yet, we believe that North et al.’s perspective helps developing an idea why social dilemmas might occur much more often in modern societies relative to traditional societies.

Typically, competition represents the situational logic of a (many-sided) social dilemma, which can be described as a multi-actor prisoners’ dilemma (Pies et al. 2009, 384). Take the simple example of market competition: In principle, corporations of a single industry have a mutual interest not to compete with one another, but to cooperate as an industry cartel in restricting quantities or increasing prices. Yet, the (politically enforced) social dilemma logic of competition leads companies to exploit potential cartelists, because each firm can easily attract customers by undercutting cartel prices and, thus, increase its profits.

Evidently, the same dilemma logic of collective self-damage is also constitutive of competition in politics, academia, the arts etc.. Thus, an institutional economics perspective informed by North et al.’s (2009) typology supports the view that inasmuch as modern societies feature the characteristics of an open-access order, they also witness a growing empirical importance of social dilemma situations. The reason why social dilemma situations are a *signum of modern societies* is by virtue of their nature as open access orders, which give rise to *competition* in politics and the economy, and potentially in many other social systems.

Ad 3. Institutional economics also accounts for the ambiguity of social dilemma situations. From a normative perspective, dilemmas can be desirable or undesirable. As a case in point, the analysis of social dilemma situations can readily explain why institutional deficits in the market framework may lead companies to polluting the environment. In principle, corporations of an industry have a common interest to preserve the critical natural resources of their environment, because excessive pollution may destroy the very basis of their own existence. Yet, the same social dilemma logic of competition that leads companies to exploit potential cartelists also induces them to exploit voluntary environmental protection. Due to competition, companies force each other to pollute the natural environment if they lack property rights in natural resources and thus are unable to charge a price that covers the cost of environmental protection.

Against this backdrop, an institutional economics’ perspective measures the (un-)desirability of social dilemmas not against the disregard of critical dependencies with the environment, but against the aggregate societal consequences of individual behavior. To illustrate the consequences of this perspective, it is helpful to distinguish between an actor’s and a society’s view. From an actor’s perspective, both the cartel dilemma and the environmental dilemma can be seen as undesirable, because all involved companies can benefit from establishing an institutional framework that helps the industry to break out of a situation of collective self-damage, be it price competition or environmental damage. Yet, from a society’s perspective, only the environmental dilemma qualifies as an undesirable social dilemma because it results in pollution and degradation. The undesirability of this social dilemma is also reflected in contemporary politics’ efforts to establish an institutional framework that creates incentives to

avoid environmental degradation. In contrast, modern market societies have learned from 19th and 20th century experience that the cartel dilemma is to be viewed as a desirable dilemma. Preventing cartels avoids grievances among the workforce and translates into high(er) quality products and services at competitively low prices for consumers (Eucken 1951, Baumol 2002, 2010, McCloskey 2007, 2010, 2016, Phelps 2013). As a result, the beneficial social dilemma logic of competition is enforced by political rules such as property rights, contract law and anti-trust regulation.

From an institutional economics' perspective, both examples highlight the pivotal importance of a differentiated management of social dilemma structures to establish, maintain and develop an appropriate institutional order of competition in many fields of social interaction (Pies 2000). In fact, depending on society's judgment of the aggregate social results, a differentiated management of dilemma structures requires either *enforcing* social dilemmas (as in the case of cartelization) or *overcoming* social dilemmas (as in the case of environmental damage).

((3)) Comparing both perspectives reveals similarities and differences. In general, there is basic agreement about the fact that dilemma situations are emergent in modern society. Yet, both theory perspectives use diverse theoretical notions and models to explain the same phenomenon, with each resulting explanation reflecting a different explanatory capacity:

- A systems-theoretic perspective as put forward by Valentinov and Chatalova (2016) stresses the double-identity of operationally closed and metabolistically open social systems. In contrast, institutional economics highlights competition as the pivotal feature of openness in the two most important social systems: the economy and politics.
- The emphasis on the relationship between systems and their environments seems to guide the systems-theoretic view that social dilemmas are created by incentive structures that lead actors to disregard their critical environmental dependence. In contrast, institutional economics argues that emergent social dilemma situations are the result of the overarching importance of competition in open (access) societies.
- The notion of *disregard* of critical environmental dependencies suggests viewing undesirable dilemma structures to originate from incentive structures being too strong relative to the system's environment. Building on the notion of *relative strength*, a systems-theoretic perspective calls for correcting social dilemmas by weakening its incentives. For institutional economics, in contrast, the crucial aspect relates to a different dimension. Instead of asking whether incentives are strong or weak, it is interested in the *direction of incentivized behavior*, and it thus asks whether incentivized behavior yields socially desirable outcomes or not. In case of undesirable results, institutional economics calls for a differentiated management of social dilemma structures by means of (re-)forming institutional incentives and thus (re-)directing behavior.

In conclusion, we would like to emphasize that we hold systems-theoretical approaches such as those informed by Niklas Luhmann or Ludwig von Bertalanffy to be powerful perspectives for the diagnosis of modern society. Yet the explanatory capacity of each theory perspective is dependent on the explanandum. In regard of the present efforts, we believe an institutional economics' perspective to be much more relevant for understanding why social dilemma situations are emergent in modern societies. Explaining the emergent character of social dilemma situations in modern societies seems to be much better informed by North et al.'s (2009) systematic emphasis of competition in open access societies than by Luhmann's (1977)

undoubtedly illuminating notion of functional differentiation. Conversely, Luhmann's systems-theoretical work seems to be much more informative for institutional economics in regard of analyzing the potential discrepancies between social structure and semantics in modern society. This analysis is the specific focus of the research program of ordonomics (Pies 2009a and 2009b), whose research efforts bear upon such diverse areas as business ethics and corporate social responsibility (Beckmann 2010, Pies et al. 2009, 2014; Hielscher et al. 2014), (corporate) sustainability (Beckmann et al. 2014), development policy (Hielscher 2012) or non-profit organizations (Valentinov et al. 2013, 2015).

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